

HIBBETT SPORTS INC
Form 10-Q
December 08, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended November 1, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 000-20969

HIBBETT SPORTS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE 20-8159608
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2700 Milan Court, Birmingham, Alabama 35211
(Address of principal executive offices, including zip code)

205-942-4292
(Registrant's telephone number, including area code)

NONE
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Shares of common stock, par value \$.01 per share, outstanding as of December 4, 2014, were 25,000,692 shares.

HIBBETT SPORTS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

HIBBETT SPORTS, INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets

(in thousands, except share and per share information)

	November 1, 2014	February 1, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	\$71,481	\$66,227
Inventories, net	242,788	226,545
Other current assets	29,321	30,877
Total current assets	343,590	323,649
Property and equipment	212,097	211,204
Less accumulated depreciation and amortization	118,750	125,190
Property and equipment, net	93,347	86,014
Other assets, net	6,768	6,682
Total Assets	\$443,705	\$416,345
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current Liabilities:		
Accounts payable	\$90,816	\$74,532
Accrued payroll expenses	9,540	8,464
Deferred rent	4,193	3,792
Short-term capital lease obligations	428	322
Other accrued expenses	5,975	4,304
Total current liabilities	110,952	91,414
Deferred rent	14,940	13,803
Other liabilities, net	7,462	7,105
Total liabilities	133,354	112,322
Stockholders' Investment:		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, no shares issued	-	-
Common stock, \$.01 par value, 80,000,000 shares authorized, 38,462,693 and 38,202,486 shares issued at November 1, 2014 and February 1, 2014, respectively	385	382
Paid-in capital	161,777	154,533
Retained earnings	546,129	492,471
Treasury stock, at cost; 13,461,826 and 12,389,531 shares repurchased at November 1, 2014 and February 1, 2014, respectively	(397,940)	(343,363)
Total stockholders' investment	310,351	304,023
Total Liabilities and Stockholders' Investment	\$443,705	\$416,345

See notes to unaudited condensed consolidated financial statements.

HIBBETT SPORTS, INC. AND SUBSIDIARIES
 Unaudited Condensed Consolidated Statements of Operations
 (in thousands, except per share information)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net sales	\$218,321	\$207,971	\$674,148	\$634,198
Cost of goods sold, including wholesale, logistics and store occupancy costs	139,171	131,483	432,394	402,907
Gross profit	79,150	76,488	241,754	231,291
Store operating, selling and administrative expenses	48,202	45,496	143,778	134,251
Depreciation and amortization	4,136	3,549	11,777	10,193
Operating income	26,812	27,443	86,199	86,847
Interest expense, net	73	55	216	142
Income before provision for income taxes	26,739	27,388	85,983	86,705
Provision for income taxes	9,849	10,138	32,324	32,700
Net income	\$16,890	\$17,250	\$53,659	\$54,005
Earnings per share:				
Basic	\$0.67	\$0.67	\$2.10	\$2.09
Diluted	\$0.67	\$0.66	\$2.08	\$2.05
Weighted average shares outstanding:				
Basic	25,111	25,823	25,504	25,893
Diluted	25,336	26,282	25,758	26,309

See notes to unaudited condensed consolidated financial statements.

HIBBETT SPORTS, INC. AND SUBSIDIARIES
 Unaudited Condensed Consolidated Statements of Cash Flows
 (in thousands)

	Thirty-Nine Weeks Ended	
	November 1, 2014	November 2, 2013
Cash Flows From Operating Activities:		
Net income	\$53,659	\$ 54,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,777	10,193
Stock-based compensation	3,641	4,727
Other non-cash adjustments to net income	(1,097)	(3,575)
Increase in inventories, net	(16,243)	(8,794)
Decrease (increase) in prepaid expenses	1,969	(44)
Increase (decrease) in accounts payable	16,284	(8,857)
Changes in other operating assets and liabilities	5,268	1,879
Net cash provided by operating activities	75,258	49,534
Cash Flows From Investing Activities:		
Capital expenditures	(18,955)	(42,504)
Other, net	191	(327)
Net cash used in investing activities	(18,764)	(42,831)
Cash Flows From Financing Activities:		
Cash used for stock repurchases	(49,908)	(14,483)
Payments on capital lease obligations	(273)	(204)
Proceeds from options exercised and purchase of shares under the employee stock purchase plan	700	1,502
Other, net	(1,759)	(492)
Net cash used in financing activities	(51,240)	(13,677)
Net increase (decrease) in cash and cash equivalents	5,254	(6,974)
Cash and cash equivalents, beginning of period	66,227	76,911
Cash and cash equivalents, end of period	\$71,481	\$ 69,937

See notes to unaudited condensed consolidated financial statements.

HIBBETT SPORTS, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

1. Basis of Presentation and Accounting Policies

The accompanying unaudited condensed consolidated financial statements of Hibbett Sports, Inc. and its wholly-owned subsidiaries (including the condensed consolidated balance sheet as of February 1, 2014, which has been derived from audited financial statements) have been prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP) for interim financial information and are presented in accordance with the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. References to "we," "our," "us" and the "Company" refer to Hibbett Sports, Inc. and its subsidiaries as well as its predecessors.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended February 1, 2014 filed on March 31, 2014. In our opinion, the unaudited condensed consolidated financial statements included herein contain all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of our financial position as of November 1, 2014 and the results of our operations and cash flows for the periods presented.

There have been no material changes in our significant accounting policies as compared to the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended February 1, 2014 filed on March 31, 2014.

2. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standard Board, or FASB, issued Accounting Standard Update (ASU) 2014-09, Revenue from Contracts with Customers. This ASU is a comprehensive new revenue recognition model that expands disclosure requirements and requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU is effective for annual and interim reporting periods beginning after December 15, 2016 and early adoption is not permitted. Accordingly, we will adopt this ASU in the first quarter of Fiscal 2018. We are currently evaluating the impact of the adoption of this pronouncement on our results of operations and cash flows; however, it is not expected to be material.

3. Fair Value of Financial Instruments

Accounting Standards Codification (ASC) Subtopic 820, Fair Value Measurement, establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

Level I – Quoted prices in active markets for identical assets or liabilities.

Level II – Observable inputs other than quoted prices included in Level I.

Level III – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The table below segregates all financial assets that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value as of November 1, 2014 and February 1, 2014 (in thousands):

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	November 1, 2014			February 1, 2014		
	Level	Level		Level	Level	
	Level I	II	III	Level I	II	III
Short-term investments	\$87	\$ -	\$ -	\$509	\$ -	\$ -
Long-term investments	2,554	-	-	2,107	-	-
Total investments	\$2,641	\$ -	\$ -	\$2,616	\$ -	\$ -

Short-term investments are reported in other current assets on our unaudited condensed consolidated balance sheets. Long-term investments are reported in other assets on our unaudited condensed consolidated balance sheets.

4. Debt

At November 1, 2014, we had two unsecured credit facilities, which are renewable annually in August and November. The August facility allows for borrowings up to \$30.0 million at a rate equal to the higher of prime rate, the federal funds rate plus 0.5% or LIBOR. The November facility allows for borrowings up to \$50.0 million at a rate of prime plus 2%. Under the provisions of both facilities, we do not pay commitment fees and are not subject to covenant requirements. We did not have any borrowings against either of these facilities during the thirteen and thirty-nine weeks ended November 1, 2014, nor was there any debt outstanding under either of these facilities at November 1, 2014. At November 1, 2014, a total of \$80.0 million was available to us from these facilities.

At February 1, 2014, we had the same two unsecured facilities and corresponding terms as listed above. We did not have any borrowings against either of these facilities during Fiscal 2014, nor was there any debt outstanding under either of these facilities at February 1, 2014.

Subsequent to November 1, 2014, we renewed our existing November facility of \$50.0 million with an interest rate of prime plus 2%. The renewal was effective November 18, 2014 and will expire on November 18, 2015. The facility is unsecured and does not require a commitment or agency fee nor are there any covenant restrictions.

5. Stock-Based Compensation

The compensation costs that have been charged against income for the thirteen and thirty-nine weeks ended November 1, 2014 and November 2, 2013 were as follows (in thousands):

	Thirteen Weeks Ended November 1, 2014		Thirty-Nine Weeks Ended November 1, 2013	
Stock-based compensation expense by type:				
Stock options	\$ 19	\$ 17	\$ 449	\$ 340
Restricted stock unit awards, including performance-based	122	1,321	3,059	4,207
Employee stock purchases	25	26	81	84
Director deferred compensation	18	34	52	96
Total stock-based compensation expense	184	1,398	3,641	4,727
Income tax benefit recognized	60	516	1,342	1,745
Stock-based compensation expense, net of income tax	\$ 124	\$ 882	\$ 2,299	\$ 2,982

In the thirteen and thirty-nine weeks ended November 1, 2014 and November 2, 2013, we granted the following equity awards:

	Thirteen Weeks Ended November 1, 2014		Thirty-Nine Weeks Ended November 1, 2013	
Stock options	1,244	810	19,219	19,251
Restricted stock unit awards	-	-	63,399	62,625
Performance-based restricted stock unit awards	-	-	25,300	36,700
Deferred stock units	411	601	10,740	8,076

Under the 2012 Non-Employee Director Equity Plan (2012 Plan), a total of 1,759 and 2,312 shares of our common stock were awarded during the thirty-nine weeks ended November 1, 2014 and November 2, 2013, respectively, as part of the annual equity award to directors in the first quarter. In addition, under our employee stock purchase plan, our employees purchased 2,115 and 1,994 shares of our common stock during the thirteen weeks ended November 1, 2014 and November 2, 2013, respectively, and 6,796 and 6,860 shares of our common stock during the thirty-nine weeks ended November 1, 2014 and November 2, 2013, respectively.

The weighted-average grant date fair value of stock options granted during the thirteen and thirty-nine weeks ended November 1, 2014 was \$15.36 and \$23.38 per share, respectively. The weighted-average grant date fair value of shares of stock purchased through our employee stock purchase plan was \$9.50 and \$11.16, and the weighted-average price paid by our employees for shares of our common stock was \$36.24 and \$42.35 during the thirteen and thirty-nine weeks ended November 1, 2014, respectively.

The weighted-average grant date fair value of stock options granted during the thirteen and thirty-nine weeks ended November 2, 2013 was \$21.51 and \$17.68 per share, respectively. The weighted-average grant date fair value of shares of stock purchased through our employee stock purchase plan was \$12.94 and \$12.34, and the weighted-average price paid by our employees for shares of our common stock was \$47.40 and \$46.03 during the thirteen and thirty-nine weeks ended November 2, 2013, respectively.

At November 1, 2014, the total compensation costs, related to nonvested restricted stock unit awards not yet recognized was \$8.6 million and the weighted-average period over which such awards are expected to be recognized was 2.4 years. There are no future compensation costs related to nonvested stock options to be recognized at November 1, 2014.

6. Earnings Per Share

The computation of basic earnings per share (EPS) is based on the number of weighted average common shares outstanding during the period. The computation of diluted EPS is based on the weighted average number of shares outstanding plus the incremental shares that would be outstanding assuming exercise of dilutive stock options and issuance of restricted stock. The number of incremental shares is calculated by applying the treasury stock method. The following table sets forth the weighted average common shares outstanding (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Weighted-average shares used in basic computations	25,111	25,823	25,504	25,893
Dilutive equity awards	225	459	254	416
Weighted-average shares used in diluted computations	25,336	26,282	25,758	26,309

For the thirteen and thirty-nine weeks ended November 1, 2014 and November 2, 2013, no options were excluded from the computation of diluted weighted-average common shares and common share equivalents outstanding because of their anti-dilutive effect.

We excluded 47,900 nonvested stock awards granted to certain employees from the computation of diluted weighted-average common shares and common share equivalents outstanding because they are subject to certain performance-based annual vesting conditions which had not been achieved by November 1, 2014. Assuming the performance-criteria had been achieved as of November 1, 2014, the incremental dilutive impact would have been 25,084 shares.

7. Stock Repurchase Activity

In November 2012, the Board of Directors (Board) authorized a Stock Repurchase Program (Program) of \$250.0 million to repurchase our common stock through January 29, 2016. The Program replaced an existing program (Former Program) and authorizes repurchases of our common stock in open market or negotiated transactions, with the amount and timing of repurchases dependent on market conditions and at the discretion of our management. In addition to the Program, we also acquire shares of our common stock from holders of restricted stock unit awards to satisfy tax withholding requirements due at vesting. Shares acquired from holders of restricted stock unit awards to

satisfy tax withholding requirements do not reduce the Program authorization.

During the thirteen weeks ended November 1, 2014, we repurchased 371,589 shares of our common stock at a cost of \$16.7 million, including 689 shares acquired from holders of restricted stock unit awards to satisfy tax withholding requirements of \$31,000. During the thirty-nine weeks ended November 1, 2014, we repurchased 1,072,295 shares of our common stock at a cost of \$54.6 million, including 81,895 shares acquired from holders of restricted stock unit awards to satisfy tax withholding requirements of \$4.7 million.

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We repurchased 134,406 shares of our common stock during the thirteen weeks ended November 2, 2013 at a cost of \$7.1 million. We repurchased 344,197 shares of our common stock during the thirty-nine weeks ended November 2, 2013 at a cost of \$18.8 million, including 77,473 shares acquired from holders of restricted stock unit awards to satisfy tax withholding requirements of \$4.3 million.

As of November 1, 2014, we had approximately \$179.7 million remaining under the Program for stock repurchase.

8. Commitments and Contingencies

Lease Commitments.

We have entered into capital leases for certain property. At November 1, 2014, the total capital lease obligations were \$3.6 million, of which \$0.4 million was included in short-term capital lease obligations and \$3.2 million was included in other liabilities, net, on our unaudited condensed consolidated balance sheet. At February 1, 2014, the total capital lease obligations were \$3.2 million, of which \$0.3 million was included in short-term capital lease obligations and \$2.9 million was included in other liabilities, net, on our unaudited condensed consolidated balance sheet.

During the thirteen weeks ended November 1, 2014, we opened 26 stores and closed 7 stores increasing our lease commitments by a net of 19 retail stores. The stores we opened have initial lease termination dates between August 2019 and February 2025. At November 1, 2014, the future minimum lease payments, excluding maintenance, insurance and real estate taxes, for our current capital and operating leases, were as follows (in thousands):

	Capital	Operating	Total
Remaining Fiscal 2015	\$179	\$13,752	\$13,931
Fiscal 2016	726	48,534	49,260
Fiscal 2017	735	40,257	40,992
Fiscal 2018	735	31,980	32,715
Fiscal 2019	730	24,290	25,020
Fiscal 2020	703	16,026	16,729
Thereafter	1,288	29,741	31,029
Total minimum lease payments	5,096	204,580	209,676
Less amount representing interest	1,528	-	1,528
Present value of total minimum lease payments	\$3,568	\$204,580	\$208,148

Included in the above table are future minimum lease payments on our former distribution center which aggregate approximately \$0.2 million. The related operating lease expires in December 2014.

Annual Bonuses and Equity Incentive Awards.

Specified officers and corporate employees of our Company are eligible to receive annual bonuses, based on measures of Company operating performance. At November 1, 2014 and February 1, 2014, there was \$2.6 million and \$4.0 million, respectively, of annual bonus related expenses included in accrued payroll expenses on our unaudited condensed consolidated balance sheets.

In addition, the Compensation Committee of the Board has placed performance criteria on awards of restricted stock units (PSUs) to our Named Executive Officers. The performance criteria are tied to performance targets with respect to future return on invested capital and earnings before interest and taxes over a specified period of time. These PSUs are expensed under the provisions of ASC Topic 718, Compensation – Stock Compensation, and are evaluated each quarter to determine the probability that the performance conditions set within will be met.

Legal Proceedings and Other Contingencies.

No material amounts were accrued at November 1, 2014 or February 1, 2014 pertaining to legal proceedings or other contingencies.

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9. Income Taxes

Our effective tax rate is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. For interim financial reporting, we estimate the annual effective tax rate based on expected taxable income for the full year and record a quarterly income tax provision in accordance with the anticipated annual effective rate and adjust for discrete items. We update the estimates of the taxable income throughout the year as new information becomes available, including year-to-date financial results. This process often results in a change to our expected effective tax rate for the year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision reflects the expected annual effective tax rate. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions.

We apply the provisions of ASC Subtopic 740-10 in accounting for uncertainty in income taxes. In accordance with ASC Subtopic 740-10, we recognize a tax benefit associated with an uncertain tax position when, in our judgment, it is more likely than not that the position will be sustained upon examination by a taxing authority. For a tax position that meets the more-likely-than-not recognition threshold, we initially and subsequently measure the tax benefit as the largest amount that we judge to have a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority. Our liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. Our effective tax rate includes the net impact of changes in the liability for unrecognized tax benefits and subsequent adjustments as considered appropriate by management.

A reconciliation of the unrecognized tax benefit under ASC Subtopic 740 follows (in thousands):

	November 1, 2014	February 1, 2014
Unrecognized tax benefits - beginning of year	\$ 1,539	\$ 2,708
Gross increases - tax positions in prior period	121	245
Gross decreases - tax positions in prior period	(168)	(964)
Gross increases - tax positions in current period	128	277
Settlements	(119)	(517)
Lapse of statute of limitations	(197)	(210)
Unrecognized tax benefits - end of year	\$ 1,304	\$ 1,539

We file income tax returns in the U.S. federal and various state jurisdictions. Generally, we are not subject to changes in income taxes by the U.S. federal taxing jurisdiction for years prior to Fiscal 2012 or by most state taxing jurisdictions for years prior to Fiscal 2011.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Important Notice Regarding Forward-Looking Statements

This document contains "forward-looking statements" as that term is used in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address future events, developments and results. They include statements preceded by, followed by or including words such as "believe," "anticipate," "expect," "intend," "plan" or "estimate." For example, our forward-looking statements would include:

- our expectations concerning store locations, types and size;
- our expectations concerning capital expenditures;
- our assumptions as they relate to pending legal actions and other contingencies;
- our cash needs and capital expenditures, including our intentions and ability to fund our new stores and other future capital expenditures and working capital requirements;
- our ability and plans to renew or increase our revolving credit facilities;
- our estimates and assumptions as they relate to the preparation of our unaudited condensed consolidated financial statements including our estimates of economic and useful lives of depreciable assets and leases and our anticipated annual effective tax rate based on expected taxable income or changes in our liability for unrecognized tax benefits; and
- seasonality and the effect of inflation.

You should assume that the information appearing in this report is accurate only as of the date it was issued. Our business, financial condition, results of operations and prospects may have changed since that date. For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully consider the risk factors described from time to time in our other documents and reports, including the factors described under "Risk Factors," "Business" and "Properties" in our Form 10-K for the fiscal year ended February 1, 2014 filed with the Securities and Exchange Commission on March 31, 2014. You should also read such information in conjunction with our unaudited condensed financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report.

Our forward-looking statements could be wrong in light of these risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. We have no obligation to publicly update or revise our forward-looking statements after the date of this Quarterly Report and you should not expect us to do so. Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, we do not, by policy, selectively disclose to them any material non-public information with any statement or report issued by any analyst regardless of the content of the statement or report. We do not, by policy, confirm forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

Investor Access to Company Filings

We make available free of charge on our website, www.hibbett.com under the heading "Investor Relations," copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (Securities Exchange Act) as well as all Forms 4 and 5 filed by our executive officers and directors, as soon as the filings are made publicly available by the Securities and Exchange Commission on its EDGAR database at www.sec.gov. In addition to accessing copies of our reports online, you may request a copy of our Annual Report on Form 10-K for the fiscal year ended February 1, 2014, at no charge, by writing to: Investor Relations, Hibbett Sports, Inc., 2700 Milan Court, Birmingham, Alabama 35211.

General Overview

Hibbett Sports, Inc. operates sporting goods stores in small to mid-sized markets, predominantly in the South, Southwest, Mid-Atlantic and Midwest regions of the United States. We believe Hibbett Sports stores are typically the primary sporting goods retailer in smaller markets due to the extensive selection of premium brand name merchandise, availability of local merchandise, an emphasis on team sports and a high level of customer service. As of November 1, 2014, we operated a total of 969 retail stores in 31 states composed of 950 Hibbett Sports stores and 19 Sports Additions athletic shoe stores.

The Hibbett Sports store is our primary retail format and growth vehicle and is an approximately 5,000 square foot store located primarily in strip centers which are frequently influenced by a Wal-Mart store. Approximately 81% of our Hibbett Sports store base is located in strip centers, which include free-standing stores, while approximately 19% of our Hibbett Sports store base is located in enclosed malls. We expect to continue our store base growth in strip centers versus enclosed malls.

We operate on a 52- or 53-week fiscal year ending on the Saturday nearest to January 31 of each year. The consolidated statement of operations for fiscal year ending January 31, 2015 and February 1, 2014 will include 52 weeks of operations. We became a public company in October 1996 and are currently incorporated under the laws of the State of Delaware as Hibbett Sports, Inc.

Comparable store sales data for the periods presented reflects sales for our traditional format Hibbett Sports and Sports Additions stores open throughout the period and the corresponding period of the prior fiscal year. If a store remodel, relocation or expansion results in the store being closed for a significant period of time, its sales are removed from the comparable store sales base until it has been open a full 12 months. During the thirteen weeks ended November 1, 2014, 865 stores were included in comparable store sales. During the thirty-nine weeks ended November 1, 2014, 839 stores were included in comparable store sales.

Executive Summary

Net sales for the thirteen weeks ended November 1, 2014, increased 5.0% to \$218.3 million compared with \$208.0 million for the thirteen weeks ended November 2, 2013. Comparable store sales increased 0.6%, driven by solid performances in cleats, activewear and footwear, offset by weaker performance in equipment and licensed products. Gross profit was 36.3% of net sales for the thirteen weeks ended November 1, 2014, compared with 36.8% for the thirteen weeks ended November 2, 2013. The decline was mainly due to markdowns related to slow selling and aged inventory. Gross profit was also affected by store occupancy costs, as these expenses increased at a higher rate than total net sales.

Net sales for the thirty-nine weeks ended November 1, 2014, increased 6.3% to \$674.1 million compared with \$634.2 million for the thirty-nine weeks ended November 2, 2013. Comparable store sales increased 1.9%, driven by strong performances in footwear and activewear, offset by weaker performance in licensed products and equipment. Gross profit was 35.9% of net sales for the thirty-nine weeks ended November 1, 2014, compared with 36.5% for the thirty-nine weeks ended November 2, 2013. The decline was due to markdowns related to slow selling and aged inventory, costs related to our new wholesale and logistics facility since opening in April, 2014, and store occupancy costs increasing at a higher rate than total net sales.

During the third quarter of Fiscal 2015, we opened a record number of 26 new stores, expanded 2 high performing stores and closed 7 underperforming stores, bringing the store base to 969 in 31 states as of November 1, 2014. We ended the third quarter of Fiscal 2015 with \$71.5 million of available cash and cash equivalents on the unaudited condensed consolidated balance sheet and full availability under our credit facilities. We also acquired 371,589 shares of our common stock for a total expenditure of \$16.7 million during the thirteen weeks ended November 1, 2014.

Significant Accounting Estimates

The unaudited condensed consolidated financial statements are prepared in conformity with U.S. GAAP. The preparation of these unaudited condensed consolidated financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates and assumptions. Our significant accounting policies and estimates are described more fully in the Annual Report on Form 10-K for the fiscal year ended February 1, 2014, and filed on March 31, 2014. There have been no changes in our accounting policies in the current period that had a material impact on our unaudited condensed

consolidated financial statements.

Recent Accounting Pronouncements

See Note 2 to the unaudited condensed consolidated financial statements included in this Form 10-Q for the period ended November 1, 2014, for information regarding recent accounting pronouncements.

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Results of Operations

Summarized Unaudited Information

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Statements of Operations				
Net sales increase	5.0	% 2.5	% 6.3	% 5.5
Comparable store sales increase	0.6	% 4.8	% 1.9	% 1.8
Gross profit (as a % to net sales)	36.3	% 36.8	% 35.9	% 36.5
Store operating, selling and administrative expenses (as a % to net sales)	22.1	% 21.9	% 21.3	% 21.2
Depreciation and amortization (as a % to net sales)	1.9	% 1.7	% 1.8	% 1.6
Provision for income taxes (as a % to net sales)	4.5	% 4.9	% 4.8	% 5.2
Net income (as a % to net sales)	7.7	% 8.3	% 8.0	% 8.5
Earnings per diluted share	\$0.67	\$0.66	\$2.08	\$2.05
Weighted-average dilutive shares (in thousands)	25,336	26,282	25,758	26,309
Balance Sheets				
Ending cash and cash equivalents (in thousands)	\$71,481	\$69,937		
Average inventory per store	\$250,555	\$254,615		
Store Information				
Beginning of period	950	892	927	873
New stores opened	26	16	58	42
Stores closed	(7)	(4)	(16)	(11)
End of period	969	904	969	904
Stores expanded	2	4	7	12
Estimated square footage at end of period (in thousands)	5,553	5,216		
Share Repurchase Activity				
Shares purchased	371,589	134,406	1,072,295	344,197
Cost (in thousands)	\$16,745	\$7,142	\$54,577	\$18,771

Thirteen Weeks Ended November 1, 2014 Compared to Thirteen Weeks Ended November 2, 2013

Net sales. Net sales increased \$10.4 million, or 5.0%, to \$218.3 million for the thirteen weeks ended November 1, 2014 from \$208.0 million for the comparable period in the prior year. Furthermore:

- We opened 26 Hibbett Sports stores, expanded 2 high performing stores and closed 7 underperforming stores.
- Comparable store sales increased 0.6%, driven by growth in activewear, footwear and cleats sales. Sales growth in cleats was driven by soccer. Activewear showed sales growth across all major divisions, including women's, men's and youth. Footwear strength was due to the basketball division, including NIKE's signature products and Jordan footwear.
- Licensed product sales were weaker mainly due to a decline in professional football and basketball products. A weakness in equipment sales was led by a decline in the demand for tackle football products (somewhat offset by sales growth in flag football products) and cold weather gear.

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Gross profit. Cost of goods sold includes the cost of inventory, wholesale and logistics expenses and store occupancy costs. Gross profit was \$79.2 million, or 36.3% of net sales, in the thirteen weeks ended November 1, 2014, compared with \$76.5 million, or 36.8% of net sales, in the same period of the prior fiscal year. Furthermore:

Product margin decreased 26 basis points as a percentage of net sales primarily due to markdowns related to slow selling and aged inventory.

Wholesale and logistics expenses decreased 15 basis points as a percentage of net sales resulting mainly from salary and benefit expense savings associated with efficiency gains from our new facility.

Store occupancy expense increased 42 basis points as a percentage of net sales mainly due to decreased leverage associated with lower comparable store sales.

Store operating, selling and administrative expenses. Store operating, selling and administrative expenses were \$48.2 million, or 22.1% of net sales, for the thirteen weeks ended November 1, 2014, compared to \$45.5 million, or 21.9% of net sales, for the comparable period a year ago. For the third quarter:

Store labor costs increased 12 basis points as a percentage of net sales due to decreased leverage associated with lower comparable store sales.

Business insurance expenses increased 12 basis points as a percentage of net sales due to higher worker's compensation costs. Expenses associated with opening new stores increased 9 basis points as a percentage of net sales. Professional fees also increased 9 basis points as a percentage of net sales due to an increase in consulting fees related to our long-term strategic plan.

Stock-based compensation costs decreased 58 basis points as a percentage of net sales due to a larger number of equity award forfeitures in the current quarter.

Depreciation and amortization. Depreciation and amortization increased to 1.9% of net sales for the thirteen weeks ended November 1, 2014 from 1.7% of net sales for the comparable period a year ago. This increase was mainly due to our new wholesale and logistics facility and an increased number of new stores.

Provision for income taxes. The combined federal, state and local effective income tax rate as a percentage of pre-tax income was 36.8% and 37.0% for the thirteen weeks ended November 1, 2014 and November 2, 2013, respectively. The decrease in rate resulted primarily from a settlement with a state taxing authority during the thirteen weeks ended November 1, 2014.

Thirty-Nine Weeks Ended November 1, 2014 Compared to Thirty-Nine Weeks Ended November 2, 2013

Net sales. Net sales increased \$39.9 million, or 6.3%, to \$674.1 million for the thirty-nine weeks ended November 1, 2014 from \$634.2 million for the comparable period in the prior year. Furthermore:

- We opened 58 Hibbett Sports stores, expanded 7 high performing stores and closed 16 underperforming stores.
- Comparable store sales increased 1.9%, driven by footwear and activewear.
- Footwear increased due to basketball, while activewear increased due to branded apparel.
- Licensed products were weaker mainly due to headwear and college special event sales.

Gross profit. Cost of goods sold includes the cost of inventory, wholesale and logistics expenses and store occupancy costs. Gross profit was \$241.8 million, or 35.9% of net sales, in the thirty-nine weeks ended November 1, 2014, compared with \$231.3 million, or 36.5% of net sales, for the comparable period in the prior year. Furthermore:

Product margin decreased 39 basis points as a percentage of net sales primarily due to markdowns related to slow selling and aged inventory.

Wholesale and logistics expenses increased 3 basis points as a percentage of net sales mainly due to transitional expenses associated with our new facility, partially offset by labor efficiency gains from the new facility.

Store occupancy expense increased 19 basis points as a percentage of net sales mainly due to decreased leverage associated with lower comparable store sales.

Store operating, selling and administrative expenses. Store operating, selling and administrative expenses were \$143.8 million, or 21.3% of net sales, for the thirty-nine weeks ended November 1, 2014, compared to \$134.3 million, or 21.2% of net sales, for the comparable period in the prior year. Furthermore:

Salaries and benefits expenses decreased 5 basis points as a percentage of net sales. Store labor costs increased while administrative salaries decreased due to a lower annual bonus accrual. Benefits costs decreased due to lower health care claims.

Expenses associated with the preparation of the new wholesale and logistics facility increased 6 basis points as a percentage of net sales.

Professional fees increased 11 basis points as a percentage of net sales due to an increase in consulting fees related to long-term strategic planning.

Depreciation and amortization. Depreciation and amortization increased to 1.8% of net sales for the thirty-nine weeks ended November 1, 2014 compared to 1.6% of net sales for the comparable period in the prior year. This increase mainly reflects the capitalization of our new wholesale and logistics facility and an increased number of new stores.

Provision for income taxes. The combined federal, state and local effective income tax rate as a percentage of pre-tax income was 37.6% and 37.7% for the thirty-nine weeks ended November 1, 2014 and November 2, 2013, respectively.

Liquidity and Capital Resources

Our cash outlays relate primarily to new store openings, stock repurchases, IT systems and working capital requirements. Historically, we have funded our cash requirements primarily through our cash flow from operations and occasionally from borrowings under our revolving credit facilities. Due to the low interest rates currently available, we are using excess cash on deposit to offset bank fees versus investing such funds in interest-bearing deposits.

Our unaudited condensed consolidated statements of cash flows are summarized as follows (in thousands):

	Thirty-Nine Weeks Ended	
	November 1, 2014	November 2, 2013
Net cash provided by operating activities	\$75,258	\$49,534
Net cash used in investing activities	(18,764)	(42,831)
Net cash used in financing activities	(51,240)	(13,677)
Net increase (decrease) in cash and cash equivalents	\$5,254	\$(6,974)

Operating Activities.

We use cash flow from operations to increase inventory in advance of peak selling seasons, such as spring sports, back-to-school and winter holidays. Inventory levels are reduced following peak selling seasons and this inventory reduction, combined with proportionately higher net income, typically produces a positive cash flow.

Net cash provided by operating activities was \$75.3 million for the thirty-nine weeks ended November 1, 2014 compared with net cash provided by operating activities of \$49.5 million for the thirty-nine weeks ended November 2, 2013. Net income, an increase in accounts payable of \$16.3 million and an increase in depreciation expense of \$11.8 million were the significant providers of cash, somewhat offset by an increase in net inventories of \$16.2 million. The increase in net inventories was due to increased levels in advance of the holiday shopping season, as well as a higher number of stores. The increase in accounts payable was primarily due to the timing of inventory purchases in the

current thirty-nine week period. Changes in other operating assets and liabilities added \$5.3 million in cash flow primarily due to an increase in accrued expenses, including payroll.

Investing Activities.

Net cash used in investing activities in the thirty-nine weeks ended November 1, 2014 totaled \$18.8 million compared with net cash used in investing activities of \$42.8 million in the thirty-nine weeks ended November 2, 2013. Capital expenditures used \$19.0 million of cash in the thirty-nine weeks ended November 1, 2014 versus \$42.5 million of cash in the thirty-nine weeks ended November 2, 2013. Included in capital expenditures for the thirty-nine weeks ended November 1, 2014 were expenditures related to our new wholesale and logistics facility which is now fully operational. We also use cash to open new stores and remodel, expand or relocate existing stores. We opened 58 new stores and relocated, expanded or remodeled 8 existing stores during the thirty-nine weeks ended November 1, 2014 as compared to opening 42 new stores and remodeling, relocating or expanding 14 existing stores during the thirty-nine weeks ended November 2, 2013.

We estimate the cash outlay for capital expenditures in Fiscal 2015 will be approximately \$25.0 million, which relate to expenditures for our new wholesale and logistics facility, the opening of 75 to 80 new stores, the remodeling, relocation or expansion of selected existing stores, information system upgrades, and other departmental needs. Of the total budgeted dollars for capital expenditures for Fiscal 2015, approximately 43% is related to the opening of new stores and remodeling and/or relocating of existing stores. Approximately 19% is related to the completion of our new wholesale and logistics facility. The remaining 38% relates primarily to expenditures in information technology, but also includes store fixtures, transportation equipment, automobiles and security equipment for our stores.

Financing Activities.

Net cash used in financing activities was \$51.2 million in the thirty-nine weeks ended November 1, 2014 compared to net cash used in financing activities of \$13.7 million in the prior year period. The increase was primarily due to higher share repurchases when compared to the thirty-nine weeks ended November 2, 2013.

At November 1, 2014, we had two unsecured revolving credit facilities that allow borrowings up to \$30.0 million and \$50.0 million, and which renew annually in August and November, respectively. The facilities do not require a commitment or agency fee nor are there any covenant restrictions. We had no debt outstanding under either of these facilities as of November 1, 2014. We renewed our existing November facility of \$50.0 million effective November 18, 2014, which will expire on November 18, 2015. The facility is unsecured and does not require a commitment or agency fee nor are there any covenant restrictions.

Based on our current operating plans, store plans, plans for the repurchase of our common stock and budgeted capital expenditures, we believe that we can fund our cash needs for the foreseeable future through cash generated from operations and, if necessary, through periodic future borrowings against our credit facilities.

Off-Balance Sheet Arrangements.

We have not provided any financial guarantees as of November 1, 2014. All merchandise purchase obligations are cancelable. We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. We do not have any arrangements or relationships with entities that are not included in the unaudited condensed consolidated financial statements.

Quarterly and Seasonal Fluctuations

We experience seasonal fluctuations in our net sales, results of operations and working capital. Customer buying patterns around the spring sports, back to school and the holiday season historically result in higher first and fourth quarter net sales. In addition, our quarterly results of operations may fluctuate significantly as a result of a variety of factors, including the timing of new store openings, the amount and timing of net sales contributed by new stores, merchandise mix and demand for apparel and accessories driven by local interest in sporting events.

An increase in overall inflation rates may have an adverse effect on our ability to maintain current levels of gross profit and selling, general and administrative expenses as a percentage of net sales if the selling prices of our merchandise do not increase with increased costs. Based on current economic conditions, we expect that any increase in merchandise costs per unit will be offset by increased retail prices in Fiscal 2015.

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

Investment and Credit Availability Risk

We manage cash and cash equivalents in various institutions at levels beyond federally insured limits per institution, and we purchase investments not guaranteed by the FDIC. Accordingly, there is a risk that we will not recover the full principal of our investments or that their liquidity may be diminished. In an attempt to mitigate this risk, our investment policy emphasizes preservation of principal and liquidity.

We also have financial institutions that are committed to provide loans under our revolving credit facilities. There is a risk that these institutions cannot deliver against these obligations. For a further discussion of this risk and risks related to our deposits, see "Risk Factors" in our Form 10-K for the fiscal year ended February 1, 2014.

Interest Rate Risk

Our exposure to market risks results primarily from fluctuations in interest rates. There have been no material changes to our exposure to market risks from those disclosed in our Annual Report on Form 10-K for the fiscal year ended February 1, 2014 filed with the Securities and Exchange Commission on March 31, 2014.

ITEM 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of November 1, 2014. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were designed and functioning effectively to provide reasonable assurance that the information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting.

We have not identified any changes in our internal control over financial reporting that occurred during the period ended November 1, 2014, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

We are a party to various legal proceedings incidental to our business. Where we are able to reasonably estimate an amount of probable loss in these matters based on known facts, we have accrued that amount as a current liability on our balance sheet. We are not able to reasonably estimate the possible loss or range of loss in excess of the amount accrued for these proceedings based on the information currently available to us, including, among others, (i) uncertainties as to the outcome of pending proceedings (including motions and appeals) and (ii) uncertainties as to the likelihood of settlement and the outcome of any negotiations with respect thereto. We do not believe that any of these matters will, individually or in the aggregate, have a material effect on our business or financial condition. We cannot give assurance, however, that one or more of these proceedings will not have a material effect on our results of

operations for the period in which they are resolved. No material amounts were accrued at November 1, 2014 or February 1, 2014.

ITEM 1A. Risk Factors.

We operate in an environment that involves a number of risks and uncertainties which are described in our Form 10-K for the year ended February 1, 2014. If any of the risks described in our Fiscal 2014 Form 10-K were to actually occur, our business, operating results and financial results could be adversely affected. There were no material changes to the risk factors disclosed in our Form 10-K for the fiscal year ended February 1, 2014.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table presents our stock repurchase activity for the thirteen weeks ended November 1, 2014 (1):

Period	Total Number of Shares Purchased (2)	Average Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that may yet be Purchased Under the Programs (in thousands)
August 3, 2014 to August 30, 2014	240,689	\$ 46.26	240,000	\$ 185,316
August 31, 2014 to October 4, 2014	86,500	\$ 42.90	86,500	\$ 181,605
October 5, 2014 to November 1, 2014	44,400	\$ 42.79	44,400	\$ 179,705
Total	371,589	\$ 45.06	370,900	\$ 179,705

In November 2012, the Board authorized a Stock Repurchase Program (Program) of \$250.0 million to repurchase (1) our common stock through January 29, 2016. As of November 1, 2014, we have approximately \$179.7 million remaining available under the Program for stock repurchases. See Note 7, "Stock Repurchase Activity".

Includes 689 shares acquired from holders of restricted stock unit awards to satisfy tax withholding requirements of (2) \$31,000. Shares acquired from holders of restricted stock unit awards to satisfy tax withholding requirements do not reduce the authorization.

ITEM 6. Exhibits.

The exhibits listed on the Exhibit Index immediately preceding such exhibits, which is incorporated herein by reference, are filed or furnished as part of this Quarterly Report on Form 10-Q.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HIBBETT SPORTS, INC.

Date: December 8, 2014 By: /s/ Scott J. Bowman

Scott J. Bowman
Senior Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
	<u>Certificate of Incorporation and By-Laws</u>
3.1	Certificate of Incorporation of the Registrant; incorporated herein by reference to Exhibit 3.1 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 31, 2012.
3.2	Bylaws of the Registrant, as amended; incorporated herein by reference to Exhibit 3.2 of the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 31, 2012.
	<u>Form of Stock Certificate</u>
4.1	Form of Stock Certificate; attached as Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed on September 26, 2007.
	<u>Material Agreements</u>
10.1	* <u>Separation Agreement and General Release of All Claims</u>
10.2	Amendment No. 7 to Loan Documents; incorporated herein by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 21, 2014.
	<u>Certifications</u>
31.1	* <u>Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer</u>
31.2	* <u>Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer</u>
32.1	* <u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
	<u>Interactive Data Files</u>
101	** The following financial information from the Quarterly Report on Form 10-Q for the fiscal quarter ended November 1, 2014, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) the Unaudited Condensed Consolidated Balance Sheets at November 1, 2014 and February 1, 2014; (ii) the Unaudited Condensed Consolidated Statements of Operations for the thirteen and thirty-nine weeks ended November 1, 2014 and November 2, 2013; (iii) the Unaudited Condensed Consolidated Statements of Cash Flows for the thirty-nine weeks ended November 1, 2014 and November 2, 2013; and (iv) the Notes to Unaudited Condensed Consolidated Financial Statements.
	* Filed Within
	** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.